

Q3 2020 | Putnam Emerging Markets Equity Fund Q&A

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# Emerging markets outperform, and fund exceeds benchmark



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Portfolio Manager  
Industry since 2004



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Portfolio Manager, Analyst  
Industry since 2011

*The fund outperformed the benchmark for the quarter as well as for the 1-, 3-, 5-, and 10-year periods and the life-of-fund period ended September 30, 2020.*

*We are eyeing potential new winners in China, as our analyst team has had nearly 100 calls with the management teams of Chinese companies.*

*We believe the negative effects of the global pandemic will be less intense for emerging markets, particularly relative to U.S. and European markets.*

## **How did the fund perform in the third quarter?**

It was a very strong period of performance for the fund, which gained 15.10%, outperforming its benchmark, the MSCI Emerging Markets Index [ND], which returned 9.56%. We're also pleased to report that the fund outperformed its benchmark for the 1-, 3-, 5-, and 10-year periods and the life-of-fund period ended September 30, 2020. Recent performance strength came from a wide range of sectors, particularly industrials, consumer discretionary, and communication services.

For global equity markets overall in the quarter, we saw volatility due to concerns about the persistent COVID-19 pandemic and continuing U.S.–China trade tensions. However, emerging-market stocks advanced in all three months.

## **What are some areas of focus as you position the portfolio?**

As we continue to seek investment opportunities, we are eyeing potential new winners in China. Some clear themes have emerged this year as our analyst team has had nearly 100 calls with the management teams of Chinese companies. One notable trend is that Chinese brands are taking share from international brands across nearly every sector. Also, “Made in China 2025” is one of the Chinese government’s highest priorities. Its goals include increasing domestic-made content of core materials in key industries such as pharmaceuticals, aerospace, and information technology. We are watching these trends carefully and using insights from our meetings with company management teams to position the fund in what we believe are promising growth opportunities.

**As we enter the final quarter of 2020, what is your outlook?**

In an environment where bullish forecasts are relatively rare, we are optimistic about the prospects for emerging-market stocks. Much is still unknown about the economic impact of COVID-19 across global economies, and there is a wide range of potential outcomes. However, in terms of stocks, we believe the negative effects of the global pandemic will be less intense for emerging markets, particularly relative to U.S. and European markets. In our view, emerging-market stocks in most regions offer an attractive absolute and relative risk/reward profile. We believe lower global interest rates could also provide a tailwind.

**Putnam Emerging Markets Equity Fund (PEMYX)**

Annualized total return performance as of 9/30/20

| <b>Class Y shares</b><br>Inception 9/29/08 | <b>Net asset value</b> | <b>MSCI Emerging Markets Index [ND]</b> |
|--|------------------------|---|
| Last quarter                               | 15.10%                 | 9.56%                                   |
| 1 year                                     | 31.33                  | 10.54                                   |
| 3 years                                    | 8.47                   | 2.42                                    |
| 5 years                                    | 13.33                  | 8.97                                    |
| 10 years                                   | 4.36                   | 2.50                                    |
| Life of fund                               | 5.99                   | 5.31                                    |

Total expense ratio: 1.49%

What you pay: 1.04%

“What you pay” reflects Putnam Management’s decision to contractually limit expenses through 12/30/20.

Returns for periods of less than one year are not annualized.

*Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.*

The MSCI Emerging Markets Index (ND) is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. You cannot invest directly in an index.

The views and opinions expressed are those of the portfolio managers as of September 30, 2020, are subject to change with market conditions, and are not meant as investment advice.

**Consider these risks before investing:** International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Investments in small and/or midsize companies increase the risk of greater price fluctuations. From time to time, the fund may invest a significant portion of its assets in companies in one or more related industries or sectors, which would make the fund more vulnerable to adverse developments affecting those industries or sectors. Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet

its obligations. The value of investments in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

For informational purposes only. Not an investment recommendation.

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